

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON IMBABAZANE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Imbabazane Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Imbabazane Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Additional matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unaudited supplementary schedules

9. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Usefulness of information

11. The following criteria are relevant to the findings below:
 - Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time-bound.
 - Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets.
 - Consistency: Objectives, indicators and targets are consistent between planning and reporting documents.
12. The following audit findings relate to the above criteria:
 - Planned and reported indicators/measures were not well defined.
 - Planned and reported indicators/measures were not verifiable.
 - Planned and reported targets were not specific, measurable and time bound.
 - Reported performance against predetermined targets was not consistent with the approved measures/indicators.

Reliability of information

13. The following criteria are relevant to the findings below:

- Validity: Actual reported performance has occurred and pertains to the entity.
- Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report.

14. The following audit finding relates to the above criteria:

- Sufficient appropriate evidence was not submitted to support reported targets.

Compliance with laws and regulations

Expenditure management

15. The mayor failed to submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality, as required by section 52(d) of the MFMA.

Annual financial statements

16. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of infrastructure assets, grant revenue and value-added-tax (VAT) identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

17. The municipality did not have an effective system of internal control over assets and liabilities, as required by sections 62(1)(b), 62(2) and 63(1) of the MFMA. Furthermore, bank and VAT reconciliations were not performed on a monthly basis.

Audit committee

18. The audit committee did not substantially fulfil its responsibilities, as required by section 166 of the MFMA.

INTERNAL CONTROL

19. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

20. The accounting officer did not exercise effective oversight responsibility over financial and internal control, performance reporting as well as compliance with laws and regulations.

Financial and performance management

21. Systems were not appropriate to facilitate the preparation of quality financial statements and performance reports. The financial statements were subject to material amendments resulting from the audit.
22. The accounting officer did not maintain an effective and efficient system of recording, reporting and monitoring of information on predetermined objectives.

Governance

23. Internal controls were not selected and developed in a manner to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives. Moreover, the audit committee did not provide a credible and reliable review of the financial statements and performance reports submitted for audit purposes.

Pietermaritzburg

30 November 2011



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence